

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3465-01
Bill No.: HB 1457
Subject: Business and Commerce; Economic Development;
Type: Original
Date: February 19, 2010

Bill Summary: This proposal re-establishes the Small Business Incubators Act which consists of a loan, loan guarantee, and grant program for the establishment, operation, and administration of small business incubators

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(Unknown) to \$500,000	(Unknown) to \$500,000	(Unknown) to \$500,000
Total Estimated Net Effect on General Revenue Fund	(Unknown) to \$500,000	(Unknown) to \$500,000	(Unknown) to \$500,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Missouri Small Business Incubators	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasurer** and the **Department of Elementary and Secondary Education** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal removes the tax credit cap of \$500,000 for contributions made to the Missouri Small Business Incubators Fund. The proposal could therefore lower general and total state revenues by an unknown amount. This proposal may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Officials from the **Department of Economic Development (DED)** state this bill re-establishes the Small Business Incubator Program. Our review concludes the bill eliminates the annual cap of \$500,000 for the tax credit portion of the program. The credits are 50% tax credits based on the contribution made to the improvement of a certified incubator. There are currently 13 certified Missouri incubators across the state with 11 in the “Active” status. Over the past four years an average of 5 incubators have applied and utilized the credits each year. By elimination of the cap, it is difficult to determine the utilization of the program and number of tax credits that will be needed/used.

Officials from the **Department of Revenue (DOR)** state their response to a proposal similar to or identical to this one in a previous session (HB 135 in 2009) did not reflect an impact for Personal Tax. However, due to further review and assumptions, it appears this legislation could allow credits to be claimed by individual filers. These changes cannot be made without an impact to DOR resources and budget. Therefore, DOR assumes the need for two additional FTE to administer the changes in this proposal. Personal Tax will need one additional Revenue Processing Technician per 4,000 credits claimed and Corporate Tax will need one Revenue Processing Technician for every 6,000 credits redeemed. DOR estimates the cost of these additional FTE to be roughly \$85,000 per year.

Oversight assumes both the Department of Economic Development and the Department of Revenue will be able to administer the new Small Business Incubator program with the existing staff that administer the current program. Therefore, Oversight assumes both agencies will not incur additional costs.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

The new program does not have an annual limit of tax credits that can be issued for donations to the new Missouri Small Business Incubators Fund. Therefore, **Oversight** will reflect a potential loss of General Revenue from this tax credit of \$0 (no contributions are made) to (Unknown). Oversight will also reflect a \$0 to (Unknown) loss to General Revenue for potential direct appropriations made to the new fund.

According to the Tax Credit Analysis page submitted by DED, the current Small Business Incubator Fund program has had the following activity for the past three years and projections for FY '10:

	FY 2007	FY 2008	FY 2009	FY 2010 (projected)
# of Certificates Issued	29	34	28	30
# of Projects	5	5	3	5
Amount Authorized	\$500,000	\$500,000	\$217,574	\$500,000
Amount Issued	\$420,775	\$309,664	\$189,967	\$350,000
Amount Redeemed	\$179,368	\$252,392	\$548,639	\$300,000

The current program, which is being deleted, has an annual limit of \$500,000 in tax credits issued. **Oversight** will reflect a potential savings in issuances of \$0 up to the annual limit.

Oversight assumes DED will spend all monies appropriated to the fund or contributions made into the fund in the year it was received.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Savings</u> - DED			
Repeal of Small Business Incubator tax credit program	\$0 to \$500,000	\$0 to \$500,000	\$0 to \$500,000
<u>Loss</u> - DED			
Tax credits for new Small Business Incubator Act	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Transfer Out</u> - DED			
Potential appropriation to the Missouri Small Business Incubators Fund	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(Unknown) to <u>\$500,000</u>	(Unknown) to <u>\$500,000</u>	(Unknown) to <u>\$500,000</u>
MISSOURI SMALL BUSINESS INCUBATORS FUND			
<u>Transfer In</u> - from General Revenue			
Potential appropriation from the General Revenue Fund	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Income</u> - Potential contributions by taxpayers	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Costs</u> - DED			
Loans, loan guarantees, grants and other expenditures within the guidelines of the Small Business Incubator Program	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT TO THE MISSOURI SMALL BUSINESS INCUBATORS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Local Government

FY 2011
(10 Mo.)

FY 2012

FY 2013

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses that participate in the current Small Business Incubators or small business that receive benefits from the new Small Business Incubator program could be fiscally impacted by this proposal.

FISCAL DESCRIPTION

This bill re-establishes the Small Business Incubators Act which consists of a loan, loan guarantee, and grant program for the establishment, operation, and administration of small business incubators. A local sponsor may submit an application to the Department of Economic Development to obtain a loan, loan guarantee, or grant. The bill specifies the requirements of the application, the criteria which must be met in order to review and accept an application, the purposes for which a loan or grant can be used, and the responsibilities of the local sponsor.

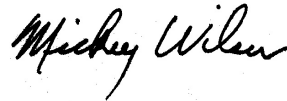
The Missouri Small Business Incubators Fund is created consisting of appropriations, gifts, and other contributions. At least 30% of the money in the fund must be reserved for a local sponsor to establish, operate, or administer a small business incubator program or to provide funding to an organization which operates a program in a rural community. Taxpayers who make a contribution to the fund or to an approved local sponsor will be entitled to a tax credit for 50% of the donation.

The department must ensure that local sponsors receiving financial awards meet the conditions of the program and may convert loans to grants if deemed appropriate. The department is required to submit an annual report by January 1 to the Governor, the Chief Clerk of the House of Representatives, and the Secretary of the Senate. The bill specifies the annual report's requirements.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Office of Administration - Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
Office of the Secretary of State
Office of the State Treasurer

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 19, 2010